

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 PRAGUE 000822

SIPDIS

E.O. 12958: DECL: 05/23/2015

TAGS: PGOV PREL ECON EZ

SUBJECT: NEW CZECH GOVERNMENT: GOOD FIRST IMPRESSIONS

REF: A. PRAGUE 720 AND PREVIOUS

¶B. PRAGUE 707

Classified By: Deputy Political Counselor Mark Canning for reasons 1.4
b+d.

¶1. (C) SUMMARY: New Czech PM Jiri Paroubek, who won a vote of confidence on May 13 (ref A), has gotten off to a stronger than expected start. His foreign policy looks to be a continuation of that of the previous Gross Government, marked by support for transatlantic policies. Notwithstanding his lack of foreign policy experience, a thin one-vote majority in parliament and his own reputation for deal-making at Prague City Hall, Paroubek stood down efforts by left-wing CSSD deputies to have a more "pro-European" (less pro-American) foreign policy and to bring back UN Ambassador Kmonicek -- and close protege of former FM Kavan -- as the new First Deputy Foreign Minister. The new government's program sets out a significant list of priorities, but most of these are not likely to be fulfilled during the twelve months remaining until the next general election. Paroubek has acknowledged that he wants to focus his government's time in office on the passage of the EU Constitutional Treaty, limited economic reforms and xxxxxxxx, with the former the overriding priority. We expect several politically popular steps on social policy before the election; progress on pressing economic reforms is unlikely, although Paroubek continues to list passage of a bankruptcy law and conflict of interest law as top priorities. In his early weeks Paroubek has deftly avoided several potential pitfalls and imposed discipline on the government that had been sorely lacking in recent months. Nevertheless, the potential for corruption allegations to be made public concerning his time as Deputy Head of the Prague City Hall with responsibilities for city contracts are a vulnerability that may be exploited by the opposition/media, although that has not yet occurred. END
SUMMARY

KEEPING THE DIRTY LAUNDRY IN THE LAUNDRY ROOM

¶2. (SBU) Paroubek was tested early, in his first few days in fact, when he first sacked the woman he had brought with him from the Ministry for Regional Development to be the Government's press spokeswoman. In another instance, his Justice Minister and coalition partner Pavel Nemec publicly challenged his Attorney General, Marie Benesova, over a case involving a Qatari prince accused of sex with under aged girls. This is a serious case, involving allegations of a bribe in exchange for extradition, and Paroubek took the necessary steps to impose discipline on his subordinates and kept the matter in the courts, where it is being investigated.

NEW GOVERNMENT - OLD FOREIGN POLICY

¶3. (SBU) Paroubek also deftly handled the attempts by CSSD left-wing deputies Jan Kavan and Vladimir Lastuvka to pressure the new Prime Minister into giving them greater influence over foreign policy in exchange for their votes of confidence (ref A). Paroubek agreed with their request that a CSSD appointee become the second in command at the Foreign Ministry, but rejected attempts to fill the slot with Kavan protege Hynek Kmonicek, current Czech UN Ambassador and a sharp critic of FM Svoboda. Instead, current Czech Ambassador in Moscow Jaroslav Basta will take the job, with Svoboda's approval, this summer; portfolios for the new deputy ministers have not been determined).

¶4. (C) The foreign and security portions of government program, approved as part of the May 13 vote of confidence, are nearly identical to those of the Gross government. More important are the personal assurances by Paroubek and nearly all senior officials that there will be no significant changes in foreign policy under Paroubek. Several MPs, including Kavan himself, Milos Titz, (CSSD - Security Committee) and Jaromir Talir (KDU-CSL Parliamentary Club Chair), all told Poloff the same in recent days. Kavan: &there will be no change; there is no need for change.8 Talir: "No change." Titz: "Absolutely no change." Kavan went on to say that he thought former PM Gross knew little about foreign issues and went along with whatever suggestions Svoboda made in order to keep his coalition partner happy. He thinks Paroubek knows more about foreign issues, and will get involved from time to time. An early example of Paroubek's role in foreign policy was his announcement during a press conference with British PM Tony Blair in London May 23 that he wants Czech military police who are now training Iraqis near Basra to stay in Iraq after their mandate runs out on December 31, 2005.

EU CONSTITUTION: COMPROMISE WITH THE OPPOSITION?

16. (SBU) Getting the EU constitution ratified is Paroubek's & Superpriority.⁸ The Czech Republic is the only country that has not decided whether to use a popular referendum or a parliamentary vote to ratify the document. Under Gross, the Social Democrats proposed seeking authorization for a referendum on the constitution as part of a bill that would make it easier for the government to call for a referendum on other topics in the future, but ODS opposed this. ODS prefers a bill authorizing a one-time referendum on the issue (in either case, a constitutional majority is required, so the coalition requires some ODS support). On the other hand, ODS would like the referendum to take place this fall. The ruling coalition, seeing the referendum as a chance to pry some pro-EU voters away from ODS, and also to increase turnout among pro-EU CSSD voters, would like any referendum to coincide with next June's elections. Paroubek has taken the first step towards a compromise, agreeing to limit the request to a one-time referendum, and called on ODS to accept the June timeframe. Both sides have shown little willingness to abandon their positions, making it likely that the EU Constitutional Treaty's ratification will be handled by the parliament by default.

OTHER PRIORITIES - UNFINISHED BUSINESS FROM PREVIOUS GOVERNMENTS

17. (U) Paroubek has just over a year to achieve enough to turn around the sagging fortunes of the Social Democrats, whose polling numbers have fallen into the high single digits. Among the other items mentioned as government priorities are new laws on bankruptcy and conflict of interest.

18. (SBU) Gross, former economic advisor and CSSD MP Jan Mladek thinks Paroubek will succeed in passing a new bankruptcy law, which remains a top priority for the business community, and one that the embassy has strongly supported. Mladek explained that opposition to changes in the current bankruptcy regime have been led by the bankruptcy administrators, primarily lawyers. There is support for reform in this area within the ruling coalition and opposition ODS, but still the window for cooperation between these two groups will close in the coming months as the summer 2006 elections begin to loom on the horizon.

19. (SBU) Passage of a new conflict of interest law seems less certain. The drafts that are being considered are, according to Mladek, targeting ODS, which controls most of the regional and municipal governments, where the majority of contracts are let. ODS also has the best contacts among construction firms, and is therefore in the best position to benefit from overpriced or unnecessary construction projects. One aspect of the debate taking place in parliamentary circles is how far down the political totem pole the mandatory disclosure requirements should go. In smaller and medium-sized cities, many officials are part-time members of the government and full time businessmen who would give up the former rather than make their business affairs public. The cabinet has passed a draft of a conflict of interest bill that doesn't require the spouses of political figures to disclose their assets. The draft now goes to parliament. Deputy State Prosecutor Jaroslav Fenyk told the Embassy May 13 that he thought there wasn't time during Paroubek's term to pass meaningful conflict of interest legislation. And he argued that since ODS strongly opposes any strengthening of the government's role in fighting corruption, it is somewhat unlikely that it will be passed during the next government's term in office either.

110. (SBU) There is little expectation that this government will tackle any of the serious economic reforms identified in the government program, including health care, pensions, and tax reform. The latter has the potential to be a political hot potato in the run-up to next year's election, with ODS loudly touting its flat tax proposal (ref B), and CSSD equally loudly claiming this would disadvantage lower income citizens. More likely in the run-up to the election are the sort of populist reforms that the Gross government also favored, including public support for newlyweds and young families, increased wages for police and other influential groups, and support for public housing. In the health care sector, where U.S. and other foreign pharmaceutical firms are complaining of unfair treatment, we are encouraged that Paroubek has decided to play an active role in overseeing the work of the Health Ministry, but will need to remain engaged to ensure that Paroubek hears the investors' arguments. (Note: Ambassador has not yet been able to schedule his initial call on Paroubek.)

111. (C) Comment: In contrast to the inactivity and public posturing that marked the prolonged crisis that led to PM Gross's resignation, the relative lack of public infighting between coalition partners and within CSSD itself has represented a real changeis striking. Gross's nemesis, KDU-CSL Chairman, Miroslav Kalousek, has been almost

invisible (as has Gross himself, who retains the position of CSSD Chairman) giving Paroubek some more breathing space than his predecessor, who had to struggle with his ruling coalition allies. With a strong Czech economy (GDP growth around 4% annually) and a seemingly restored ruling coalition, there is already a move underway within the CSSD to have Paroubek lead the party in the next elections.

Paroubek's biggest vulnerability, however, is his service as Deputy Head of the Prague City Council, where he was in charge of city contracts and where he earned a reputation for corruption as a deal-maker. If credible allegations of corruption were to be made public -- and this is a real possibility -- this could seriously impair the government or even bring it down. It would also foreclose the chances of Paroubek replacing Gross at the CSSD's helm. The ODS is widely expected to win the 2006 elections by a fairly sizable margin, but a year is a long time in politics and Paroubek is already showing signs that it could be premature to write off CSSD.

CABANISS